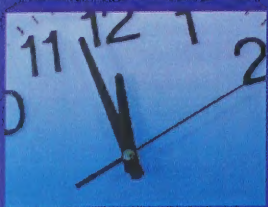


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sylogist
2005 ANNUAL REPORT

CORPORATE PROFILE

Sylogist develops, installs, integrates and maintains enterprise financial management solutions.

Sylogist creates value by designing and delivering long term service and support contracts that provide stable recurring revenues.



Sylogist is a Certified Business Solutions partner with SAP, the World's largest business solutions software company and global leader in inter-enterprise applications. Through this partnership, Sylogist develops, implements and supports superior and proven business software solutions across many industries.

In addition to providing a full service, turnkey approach on our customer's premises, Sylogist also implements its own complementary SAP certified connectivity software. Sylobridge and Syloway connectivity software ensures solutions can access information from handheld mobile devices, legacy databases, best of breed applications and other or older SAP implementations associated with a transition or a merger process. Beginning in 2005, Sylogist began designing and developing a shared services ERP system for delivering solutions through a managed service for specific vertical markets.

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Shareholders are invited to attend the Annual General Meeting of Shareholders on Tuesday, February 28, 2006, at 3:00 pm (Calgary time) in the offices of Counsel to the Corporation (Heenan Blaikie LLP) located at 1200, 425 – 1st Street SW, Calgary, Alberta, Canada T2P 3L8.





Financial Highlights



2005 ANNUAL REPORT

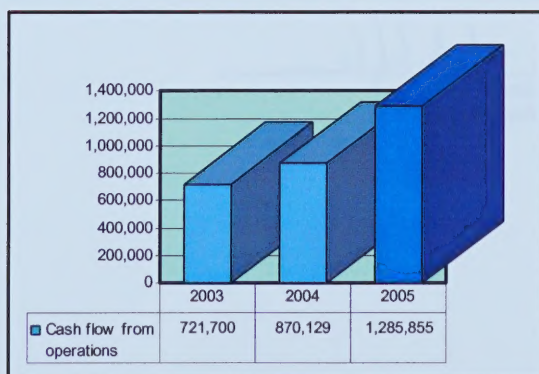
As of and for the year ended September 30, 2005

	2005	2004	2003
Revenues	5,921,885	5,271,118	6,229,764
Gross margin	3,350,117	3,001,220	3,385,010
EBITDA	1,150,301	870,633	811,483
Earnings before tax	954,457	655,458	503,675
Income tax (recovery)	(811,456)	(525,000)	1,203
Net earnings/loss	1,765,913	1,180,458	502,472
EPS (basic)	0.14	0.13	0.09
EPS (diluted)	0.13	0.13	0.08
Total assets	8,795,585	3,426,991	1,465,049
Cash flow from operations	1,285,855	870,129	721,700

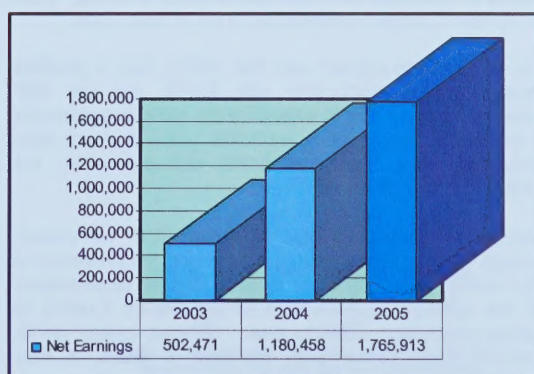
Notes:

This document contains forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Sylogist's management at the time the statements were made. Sylogist assumes no obligation to update forward-looking statements should circumstances or management's estimates change.

Cash Flow From Operations



Net Earnings





President's Message



2005 ANNUAL REPORT

Dear Fellow Shareholders

Fiscal 2005 was another successful year for Sylogist. We increased revenue and profit while laying the foundation for business growth. Our accomplishments are the direct result of continued commitment from our strong customer base, our employee team, our expanding shareholder base, aggressive management of costs, and the closing of significant new contracts. Our focus on recurring revenue from continuing relationships allowed us to post our third consecutive year of growing profitability.

Profit for the 12 months ended September 30, 2005 increased by 50% to \$1.8 million compared to fiscal 2004 results. Cash flow from operations increased by 48% to \$1.3 million compared with a year earlier. Overall revenue increased by 12% year-over-year while our key ERP division experienced a 21% increase. Revenue in the connectivity group was flat. The overall revenue increase was negatively impacted by a later than anticipated start on the Alberta Urban Municipalities project and the adoption of a conservative revenue recognition policy for this project.

In May we signed agreements with the Alberta Urban Municipalities Association Member Services Corporation (AMSC) to lead the development, marketing, operating and maintenance of a municipal shared service supporting the financial system requirements of Alberta Municipalities. The \$8.2 million development and implementation project is coupled with a 10 year operating agreement providing the potential for significant recurring revenue. Sylogist will supply all software, implementation and on-going support. Key to the agreement is Sylogist's exclusive right to market the shared service and intellectual property base outside of Alberta to municipal and other public sector markets. Work on the AMSC project commenced in Q4 of fiscal 2005.

The agreements signed with the AMSC had a positive impact on our relationship with SAP®, our key ERP software partner. SAP® extended our partner agreement in the public sector for 3 additional years and provided exclusive selling rights to SAP® software within the confines of the AMSC agreement.

During the second quarter of fiscal 2005 we raised, through a bought-deal private placement, net proceeds of \$3.4 million to fund project working capital requirements for the AMSC project and to provide initial funding to pursue acquisition opportunities. Sylogist, based on its financial performance over the past 3 years, is now qualified to list on the TSX exchange. We intend to move our exchange listing from the TSX venture to the TSX as a commitment coincident with our next equity financing.

Increasing our revenue through both organic and acquisition growth is a key priority for the immediate future. We will pursue acquisition targets to expand our customer, geographic and intellectual property base. In fiscal 2005, Sylogist increased cash to \$5.2 million from \$0.9 million at the end of fiscal 2004. This strong cash position enables us to commence our acquisition strategy in the coming year. We will examine consolidation opportunities in our market space that will benefit growth and long-term profitability.

We are encouraged by a solid 2005, but we remain attentive to the challenges we face in the future. Our results will be influenced by the timely delivery of key customer contracts, careful monitoring and closing of new business, building our sales pipeline, maintaining and enhancing key supplier relationships and accessing capital for the expansion of our business through acquisitions.

We are pleased that our management team continues to deliver improving results for our shareholders. To our employees, thank you for your continued loyalty, dedication and hard work. To our customers, thank you for supporting us and challenging us to improve. To our Board of Directors, thank you for your dedication and insight.

Sincerely,

Jim Wilson
President & CEO



Management Discussion and Analysis



sylogist

2005 ANNUAL REPORT

Fiscal Year Ended September 30, 2005 Management's Discussion and Analysis



sylogist

Suite 700, 839 - 5th Ave. SW, Calgary, AB, Canada T2P 3C8
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www.Sylogist.com

FOR THE YEAR ENDED SEPTEMBER 30, 2005**MANAGEMENT DISCUSSION & ANALYSIS (MD&A) Form 51-102F1**

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited annual financial statements for the year ended September 30, 2005 of Sylogist Ltd. ("Sylogist" or the "Company") and Sylogist's audited financial statements, notes thereto, and MD&A for the year ended September 30, 2004. Additional information with respect to Sylogist can be found on SEDAR at www.sedar.com. The reporting and measurement currency is the Canadian dollar.

This MD&A contains forward-looking statements. Forward-looking statements are based on current expectations that involve a number of risks and uncertainties which could cause actual events or results to differ materially from those reflected in the MD&A. Forward-looking statements are based on the estimates and opinions of Sylogist's management at the time the statements were made. Sylogist assumes no obligation to update forward-looking statements should circumstances or management's estimates change.

This MD&A is dated as of January 26, 2006.

2005 FINANCIAL OVERVIEW

Our Business

Sylogist delivers information management and technology solutions to government and industry clients. The Company's solutions are designed to improve overall organizational productivity. Sylogist's software solutions, along with related services are delivered to a global customer base through its own sales and delivery organization, as well as through partner and reseller channels.

Sylogist operates two lines of business. The ERP ("Enterprise Resource Planning") division resells a full range of SAP® All-In One software in Western Canada and Alaska and also provides implementation services for SAP® software. This line of business also supports complementary activities including application and data integration, application assistance and systems support. The Connectivity division generates revenues from Sylogist proprietary software and implementation services. The Company's Connectivity products integrate data between enterprise systems (including SAP and Oracle) and a wide variety of packaged and custom application specific systems. The Mobile Software is used in inventory and manufacturing control, logistics, work order management and automated data capture applications.

The Company's operations are divided into two principal geographic regions: Canada and the United States. Additionally Connectivity division sales in Europe are supported through a key OEM relationship.

Items of note for the twelve months ended September 30, 2005:

Sylogist operates internationally with a significant portion of our business conducted in foreign currencies, predominantly US dollars. Accordingly, our results are affected by exchange rate fluctuations of various currencies relative to the Canadian dollar. The increase of the Canadian dollar relative to the US dollar in the twelve months of fiscal 2005 negatively affected results. The realized foreign currency translation loss for the twelve months of fiscal 2005 was \$62 thousand related to exchanging US dollars into Canadian dollars. For the twelve months to September 30, 2005 Canadian sales accounted for 70% of revenues and sales in the United States accounted for 30%. This compares to approximately 65% from Canada and 35% in the United States during the twelve months to September 30, 2004. The relative percentage of sales of U.S. to Canada sales has been decreased partly by the lower value of the U.S. dollar relative to the Canadian dollar over the period.

Selected Annual Information

	Year Ended September 30, 2005	Year Ended September 30, 2004	Year Ended September 30, 2003
Revenues	5,921,885	5,271,118	6,229,764
Gross margin	3,350,117	3,001,220	3,385,010
EBITDA	1,150,301	870,633	811,483
Earnings before tax	954,457	655,458	503,675
Income tax (recovery)	(811,456)	(525,000)	1,203
Net earnings	1,765,913	1,180,458	502,472
EPS (basic)	0.14	0.13	0.09
EPS (diluted)	0.13	0.13	0.08
Total assets	8,795,585	3,426,991	1,465,049
Cash flow from operations	1,285,855	870,129	721,702

During fiscal 2005 we produced our third consecutive profitable year. Our main business lines of SAP® Implementation/Support Services and Connectivity Software each contributed to our revenue and profit results. Sylogist is now consistently demonstrating that our business model is working and delivering results. Unlike many other software companies at our scale, we have shown profitability in our operations and we are now generating funds that can be invested in expanding our company.

Sylogist was named to the 2005 TSX Venture 50TM, the first ever ranking of Canada's top emerging public companies from more than 2,000 companies listed on TSX Venture Exchange.

The TSX Venture 50 are the top 10 companies in each of five major industry sectors; mining, oil & gas, technology, life science and diversified industries, based on a ranking formula with equal weighting given to one-year revenue (last reported 12 months), return on investment, market cap growth and trading volume. All data was as of August 31, 2005.

Stock-based Compensation Plan

In September 2003, the CICA issued an amendment to Section 3870 - Stock based compensation and other stock based payments. The amended section is effective for fiscal years beginning on or after January 1, 2004. The amendment requires that companies measure all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. The Company has implemented this amended standard in 2004 in accordance with the early adoption provisions of the standard. The impact of stock based compensation for the period ended September 30, 2005 was a decrease in income before taxes of \$175 thousand.

Valuation of tax losses

A year to date balance sheet future income tax recovery of \$1.4 million results from the Company applying the asset and liability method of accounting for income taxes. In assessing the realizability of future tax assets, the Company considers whether it is more likely than not that some portion or all of the future income tax assets is dependant upon the generation of future taxable income. A valuation allowance of \$0.7 million was taken on the Company's net future tax position of \$2.1 million, giving rise to a total net future tax asset of \$1.4 million, as the Company determined that the criteria for recognition of these assets was met.

Revenue Analysis

Sylogist' revenue is earned from three primary sources; 1) Software license fees received for the sale of proprietary software, 2) Consulting fees related to developing solutions for our clients or installation services related to both Sylogist' and third party software and 3) Maintenance contract fees related to post implementation support services.

Revenues for the twelve months ended September 30, 2005 were \$5.9 million as compared to \$5.3 million for the twelve months ended September 30, 2004 and \$6.2 million for the fiscal 2003. This represents an increase of revenue of 12% compared to the same period last year. Revenue sources increased primarily due to successful business development of core business activities. Revenue growth was led by Consulting

fees derived from solution integration and enterprise resource planning. Between fiscal 2005 and fiscal 2003, revenue sources were reduced due to a decrease in the value of the U.S. dollar relative to the Canadian dollar.

Cost of sales and gross margin

During the twelve months to September 30, 2005, the total cost of sales was \$2.6 million (representing 43% of total revenues). This is compared to \$2.3 million in the twelve months to September 30, 2004 (representing 43% of total revenues) and to \$2.8 million in the twelve months to September 30, 2003 (representing 46% of total revenues).

For the twelve months to September 30, 2005 margins were \$3.4 million representing 57% of revenue, consistent with the margins for previous year which also accounted to 57% of revenue. Compared to fiscal 2003 margins for the twelve months ended September 30, 2005 increased from 54% of revenue to 57% of revenue. This improvement reflects higher margins from continued focus on more profitable business opportunities as well as maintaining internal efficiencies.

Sales and marketing

Expenses incurred in sales and marketing consisted primarily of salaries, sales commissions, travel, and other costs required to retain existing clients and develop new client relationships. Other expenses such as advertising, promotional materials, trade shows and other marketing programs are also included in this category. Sales and marketing costs decreased by 38% between fiscal 2005 and 2004 and by 8.5% between fiscal 2005 and 2003, primarily as a result of reduced costs of sales in developing the municipal shared-services business.

General and administrative

General and administrative expenses include management and administrative personnel, professional services, training, office and occupancy costs as well as other costs associated with operations including doubtful accounts. General and administrative costs increased between the last two fiscal periods. These costs totaled \$1.2 million for the twelve months to September 30, 2005, compared to \$677 thousand for the twelve months ended September 30, 2004. The increase in general and administrative expenses is primarily due to a doubtful account provision made during fiscal 2005 of \$224 thousand and restructuring costs recoveries of \$274 thousand recognized in fiscal 2004 that significantly lowered the costs for that period. However, general and administrative costs for fiscal 2005 decreased compared to \$1.3 million for the twelve months ended September 30, 2003. The improvement is, in part, due to effective management of operating costs.

Work in progress (Municipal Shared-Services Template)

On May 19, 2005, Sylogist entered into a series of agreements with Alberta Municipal Services Corporation ("AMSC"), a wholly owned subsidiary of the Alberta Urban Municipalities Association ("AUMA") providing for the development, marketing, implementation, licensing and maintenance of a software application called-"Municipal Template". The Municipal Template is being created to meet the information systems requirements of AUMA member municipalities. Costs associated with creating the template, including software licensing, general, administrative and consulting costs are capitalized as work in progress and licenses held for resale. For the twelve months ended September 30, 2005, the capitalized expenses incurred due to software licenses, administrative, consulting and marketing activities associated with the AMSC agreements totaled \$603 thousand.

Product development

Development costs decreased from \$560 thousand in the twelve months ended September 30, 2003 and from \$382 thousand in the twelve months ended September 30, 2004 to \$195 thousand in the twelve months ended September 30, 2005. Principal areas of spending on software development during the fiscal 2003 and 2004 were for the Company's proprietary Connectivity/Mobile Software and Enterprise Application Integration Software (EAI). The decrease in development costs was due to reduced resources applied to the EAI product as it moved to completion. The EAI Software was sold to Fujitsu Consulting Canada effective March 1, 2004.

In fiscal 2005 Sylogist received \$48 thousand in royalty payments based on the sales, service and maintenance of this software.

Amortization of intangibles

For the twelve months ended September 30, 2005 the amortization of intangibles represents the normal amortization expense attributed to the purchase of the ePoint product lines (acquired March 16, 2004).

Stock-based Compensation

In the twelve months ended September 30, 2005 the Company issued 562,500 stock options to directors, officers and others at the average price of 0.75 per each share of which 150,000 options were cancelled. The compensation cost for the stock options has been determined based on the fair value method. It resulted in a decrease in income before taxes of \$175 thousand. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

Risk-free interest rate	2.5%
Expected life (years)	5
Expected volatility	0.55
Annual dividend per share	NIL

Foreign exchange

A significant portion of the Company's revenue activities are generated through its wholly-owned U.S. subsidiary. In addition, some international contracts are or were denominated in U.S. currency. Accordingly, Sylogist is susceptible to foreign exchange fluctuations. This exposure is reduced to the extent that the Company incurs some payroll and other operating expenses in those foreign currencies. For the twelve months to September 30, 2005 foreign exchange loss was \$62 thousand compared to \$26 thousand for the twelve months ended September 30, 2004 and compared to \$61 thousand for fiscal 2003.

Income Taxes

A future income tax recovery of \$816 thousand was recognized in the twelve months of fiscal 2005. It results from the Company applying the asset and liability method of accounting for income taxes. In assessing the realizability of future tax assets, the Company considers whether it is more likely than not that some portion or all of the future income tax assets is dependant upon the generation of future taxable income. The Company determined that the criteria for recognition of these assets were met in fiscal 2005.

Net profit after taxes

For the twelve months to September 30, 2005 the Company generated a net profit of \$1.8 million. This compares to a net profit of \$1.2 million for the twelve months ended September 30, 2004 (an increase of 50%) and to a net profit of \$502 thousand for fiscal 2003.

Working capital

During the period, the working capital position improved. At September 30, 2005 the Company had positive working capital of \$6 million compared to \$1.2 million at September 30, 2004 and compared to deficit of \$130 thousand as of September 2003. Working capital increased due to positive earnings and capital raised from a Private Placement.

QUARTERLY RESULTS AND REVIEW OF FOURTH QUARTER PERFORMANCE

2005	1-QTR	2-QTR	3-QTR	4-QTR	Full Year
Revenue	1,700,220	1,503,653	1,512,068	1,205,944	5,921,885
Earnings before income taxes	250,862	233,708	407,941	61,946	954,457
Earnings per share	0.03	0.02	0.03	0.01	0.07
Net earnings	349,472	385,042	859,814	171,584	1,765,913
Net earnings per share	0.03	0.03	0.06	0.01	0.14

2004	1-QTR	2-QTR	3-QTR	4-QTR	Full Year
Revenue	1,406,891	1,161,151	1,178,885	1,524,192	5,271,119
Earnings before income taxes	305,831	39,265	104,352	206,010	655,458
Earnings per share	0.05	0.01	0.01	0.03	0.08
Net earnings	305,831	39,265	104,352	731,010	1,180,458
Net earnings per share	0.05	0.01	0.01	0.08	0.13

2003	1-QTR	2-QTR	3-QTR	4-QTR	Full Year
Revenue	1,818,167	1,799,513	1,528,844	1,085,247	6,231,770
Earnings before income taxes	27,736	377,167	229,129	(130,357)	503,676
Earnings per share	0.01	0.07	0.04	(0.02)	0.09
Net earnings	27,736	377,167	229,129	(131,562)	502,471
Net earnings per share	0.01	0.07	0.04	(0.02)	0.09

Fourth Quarter Results

Revenues for the three months ended September 30, 2005 were \$1.2 million as compared to \$1.5 million for the three months ended September 30, 2004. This represents a decrease of 18%. The Company experienced higher license sales in the last quarter of fiscal 2004 compared to the last quarter of fiscal 2005. During the fourth quarter significant activity associated with the AMSC contract had not reached the milestones necessary to recognize revenue by the end of the quarter.

Earnings before income taxes for the last quarter of 2005 were \$62 thousand compared to \$206 thousand in the last quarter of 2004. Higher revenues in the three months ended September 30, 2004 and allowance for doubtful accounts of \$143 thousand booked in the last quarter of 2005 contributed to lower financial results for the last quarter of fiscal 2005 compared to the last quarter of 2004.

A future income tax recovery of \$114 thousand was recognized in the last quarter of fiscal 2005. It results from the Company applying the asset and liability method of accounting for income taxes. In assessing the realizability of future tax assets, the Company considers whether it is more likely than not that some portion or all of the future income tax assets is dependant upon the generation of future taxable income. The Company determined that the criteria for recognition of these assets was met at year end.

Net earnings for the last quarter of fiscal 2005 were \$172 thousand compared to \$731 thousand for the last quarter of fiscal 2004. During the last quarter of 2004 a tax asset of \$525 thousand was recognized.

FINANCIAL INSTRUMENTS

The Company carries financial instruments as detailed on the balance sheet. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

LIQUIDITY

The Company finances its operations mainly through cash generated by operations. However, in February 2005 the Company raised \$3.4 million (net of issue costs) by way of a private placement to fund its operations and to meet current requirements for upcoming projects. As of September 30, 2005, Sylogist had cash, cash equivalents and short term investments of \$5.2 million compared to \$893 thousand as of September 30, 2004 and compared to \$699 thousand as of September 2003.

The Company has entered into various leases for its operating premises. Future minimum annual payments under these operating leases are:

2006	\$180,153
2007	\$180,477
2008	\$175,797
2009	\$175,797

The Company does not have any purchase obligations and has not engaged in any off-balance sheet arrangements as at September 30, 2005.

The Corporation has an employment agreement with an officer, which, in addition to standard terms relating to salary, bonus, benefits and vacation, provides for payment of an amount not to exceed one years' salary and benefits in the event of a change of control, as well as a performance fee based on the appreciation beyond \$1.00 per share of 200,000 shares, in the event of a liquidity transaction.

CAPITAL RESOURCES

The Company's balance sheet remains free from long-term debt. The Company has deferred Leasehold inducement which is amortized on a straight-line basis over the term of the applicable lease.

TRANSACTIONS WITH RELATED PARTIES

The Company had a management services agreement with one of the directors which ended in June 2005 and under which the director provided consulting and advisory services for reviewing and evaluating potential acquisition targets, assisting with investor relation activities, developing and managing partnerships and strategic relationships and leading the Company to increased shareholder value.

During the year, the Company made payments to directors and to a company controlled by a director for the following:

	2005	2004	2003
Management fees paid to a director in his capacity as an officer	\$112,000	\$128,033	\$181,334
Product development	-	24,664	101,238
Directors' fees	18,749	-	-
Interest on convertible debentures	-	3,517	12,331
	<u>\$130,749</u>	<u>\$156,214</u>	<u>\$294,903</u>

OUTSTANDING SHARE DATA

On October 9, 2002, shareholders of the Company voted to reduce share capital by \$10.3 million. At the same meeting, the shareholders voted to consolidate the common shares of the corporation on the basis of one new common share for seven existing common shares.

On February 27, 2004 Sylogist issued 1,666,667 common shares upon the exercise of convertible debentures in the aggregate principal amount of \$250,000.

On March 16, 2004 the Company issued 84,173 common shares upon the exercise of stock options for the amount of \$16,835.

On March 16, 2004 Sylogist completed the previously announced acquisition of ePoint Technologies Inc. The Company issued 2,798,245 common shares to ePoint shareholders for all the outstanding ePoint shares.

On November 22, 2004 the Company issued 66,702 common shares upon the exercise of stock options for the amount of \$15,126.

On November 30, 2004 the Company issued 63,130 common shares upon the exercise of stock options for the amount of \$12,626.

On December 16, 2004 the Company issued 200,000 common shares upon the exercise of stock options for the amount of \$48,000.

On February 28, 2005 the Company completed the previously announced Private Placement. The Company issued 3,045,000 common shares at \$1.20 per share and 304,500 common share purchase warrants, each warrant to be exercised at \$1.20 per share on or before the date that is 18 months from the date of closing the Private Placement.

On September 27, 2005 41,000 warrants were exercised at \$1.20 per share.

At September 30, 2005, the Company had 14,251,115 common shares, 716,070 stock options and 263,500 warrants to acquire common shares outstanding.

Copies of Sylogist' other disclosure can be viewed at www.SEDAR.com

Sylogist Ltd.
Management Report

The accompanying Consolidated Financial Statements and all information in the Annual Report are the responsibility of management. The Consolidated Financial Statements have been prepared by management in accordance with the accounting policies in the notes to the financial statements. When necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles ("GAAP") appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management has prepared Management's Discussion and Analysis ("MD&A"). The MD&A is based upon the Corporation's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the twelve months ended September 30, 2005 to September 30, 2004 and September 30 2003.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records properly maintained to provide reliable information for the preparation of the financial statements.

BDO Dunwoody LLP, an independent firm of Chartered Accountants, was engaged, as approved by a vote of shareholders at the Corporation's most recent annual general and special meeting, to audit the Consolidated Financial Statements in accordance with generally accepted auditing standards in Canada and provide an independent professional opinion.

The Audit Committee of the Board of Directors, which is comprised of three directors who are not employees of the Corporation, has discussed the Consolidated Financial Statements, including the notes thereto, with management and external auditors. The Consolidated Financial Statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

James D. Wilson
Chief Executive Officer
January 26, 2006

Consolidated Financial Statements of Sylogist Ltd.

September 30, 2005 & 2004



**Driving growth**

BDO Dunwoody LLP
Chartered Accountants
and Advisors

1900, 801 – 6 Avenue S.W.
Calgary, Alberta Canada T2P 3W2
Telephone: (403) 266-5608
Fax: (403) 233-7833
www.bdo.ca

Auditors' Report

To the Shareholders of
Sylogist Ltd.

We have audited the consolidated balance sheet of Sylogist Ltd. as at September 30, 2005 and 2004 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position for the Company as at September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

"BDO Dunwoody LLP"

Chartered Accountants

Calgary, Alberta
November 30, 2005

Sylogist Ltd.
Consolidated Balance Sheet

September 30	2005	2004
Assets		
Current		
Cash and cash equivalents	\$ 1,300,815	\$ 893,261
Short-term investments	3,909,760	-
Accounts receivable	945,487	1,182,783
Research tax credits receivable	-	167,559
Work in progress	271,671	-
Current portion of licenses held for resale	132,458	-
Prepaid expenses	65,402	58,202
Future income taxes (Note 10 (a))	400,000	-
	<u>7,025,593</u>	<u>2,301,805</u>
Property and equipment (Note 4)	215,248	226,652
Intangible assets (Note 5)	339,864	373,534
Licenses held for resale	198,688	-
Future income taxes (Note 10(a))	1,016,192	525,000
	<u>\$ 8,795,585</u>	<u>\$ 3,426,991</u>

Liabilities and Shareholders' Equity

Current liabilities		
Accounts payable and accrued liabilities	\$ 427,116	\$ 445,616
Deferred revenue	577,247	659,417
Current portion of lease inducement (Note 7)	35,003	35,003
	<u>1,039,366</u>	<u>1,140,036</u>
Long term liabilities		
Lease inducement (Note 7)	113,759	148,763
	<u>1,153,125</u>	<u>1,288,799</u>
Shareholders' equity		
Share capital (Note 8(b))	5,603,667	2,040,677
Contributed surplus Note 8(g)	232,020	56,655
Retained earnings	1,806,773	40,860
	<u>7,642,460</u>	<u>2,138,192</u>
	<u>\$ 8,795,585</u>	<u>\$ 3,426,991</u>

On behalf of the Board:

" Jim Wilson " Director
James D. Wilson

" Bill Hews " Director
William C. Hews

Sylogist Ltd.		Consolidated Statement of Income	
For the year ended September 30		2005	2004
Revenue	\$	5,921,885	\$ 5,271,118
Cost of sales		<u>2,571,768</u>	<u>2,269,898</u>
Gross margin		<u>3,350,117</u>	<u>3,001,220</u>
Expenses			
Amortization of intangible assets		149,475	126,453
Amortization of property and equipment		46,369	64,893
General and administrative		1,207,016	676,631
Interest on debt		-	23,829
Product development costs		194,670	382,263
Sales and marketing		627,814	1,019,054
Stock compensation		<u>175,365</u>	<u>29,159</u>
		<u>2,400,709</u>	<u>2,322,282</u>
Income before other income and income taxes		<u>949,408</u>	<u>678,938</u>
Other income (expense)			
Foreign exchange		(62,053)	(26,055)
Interest		<u>67,102</u>	<u>2,575</u>
		<u>5,049</u>	<u>(23,480)</u>
Income before income taxes		<u>954,457</u>	<u>655,458</u>
Income taxes (recovery) (Note 10(b))			
Current		4,807	-
Future		<u>(816,263)</u>	<u>(525,000)</u>
		<u>(811,456)</u>	<u>(525,000)</u>
Net income for the year	\$	1,765,913	\$ 1,180,458
Income per share (Note 8(e))			
- basic	\$	0.14	\$ 0.13
- diluted	\$	0.13	\$ 0.13

Sylogist Ltd.		Consolidated Statement of Retained Earnings	
For the year ended September 30		2005	2004
Retained earnings (deficit), beginning of year	\$	40,860	\$ (1,139,598)
Net income for the year		<u>1,765,913</u>	<u>1,180,458</u>
Retained earnings, end of year	\$	1,806,773	\$ 40,860

Sylogist Ltd.
Consolidated Statement of Cash Flows

For the year ended September 30

2005

2004

Cash flows from operating activities

Net income for the year	\$ 1,765,913	\$ 1,180,458
Items not effecting cash		
Amortization of property and equipment	46,369	64,893
Amortization of intangible assets	149,475	126,453
Future income taxes	(816,263)	(525,000)
Amortization of lease inducement	(35,004)	(5,834)
Stock compensation expense	175,365	29,159
	<u>1,285,855</u>	<u>870,129</u>

Changes in non-cash working capital balances

Accounts receivable	329,510	(393,278)
Deferred revenue	(82,169)	190,008
Accounts payable and accrued liabilities	(13,431)	(127,059)
Prepaid expenses	(7,200)	18,875
Accrued restructuring charges	-	(274,394)
Licenses for resale	(331,146)	-
Work in progress	(271,671)	-
	<u>909,748</u>	<u>284,281</u>

Cash flows from financing activity

Issuance of share capital, net of share issue costs	<u>3,482,990</u>	<u>11,457</u>
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Cash flows from investing activities

Purchase of property and equipment	(75,424)	(200,906)
Short-term investments	(3,909,760)	-
Acquisition of ePoint technologies, net of acquisition costs	-	99,907
	<u>(3,985,184)</u>	<u>(100,999)</u>

Increase in cash	407,554	194,739
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Cash, beginning of year	<u>893,261</u>	<u>698,522</u>
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Cash and equivalents, end of year	<u>\$ 1,300,815</u>	<u>\$ 893,261</u>
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Sylogist Ltd. Notes to Consolidated Financial Statements

September 30, 2005

1. Nature of Operations

Sylogist Ltd. ("The Company" or "Sylogist") is incorporated under the Business Corporations Act (Alberta). It delivers information management and technology solutions to government and industry clients. The Company's solutions are designed to improve productivity for both conventional computer based workers and mobile workers. Sylogist's software solutions, along with related services are delivered to a global customer base through its own sales and delivery organization, as well as through partner and reseller channels. Sylogist has experience with mid-sized and large organizations implementing SAP® ERP solutions and has a significant Fortune 500 install base using its data connection and mobile solutions.

2. Significant Accounting Policies

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Short-term investments

Short-term investments, consisting of short-term deposits, are carried at the lower of cost and quoted market value.

(b) Principle of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned from the date of acquisition. The results of operations of the acquired company, as disclosed in Note 3, are included from the date of acquisition. All significant intercompany accounts and transactions have been eliminated upon consolidation.

(c) Property and equipment and amortization

Property and equipment are recorded at cost and are amortized on a straight-line basis at rates designed to apportion the cost of the assets over their estimated useful lives as follows:

Computer hardware	36 months
Computer software	12 months
Furniture and equipment	36 months
Leaseholds	65 months

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

2. Significant Accounting Policies (continued)

(d) Intangible assets

Intangible assets with a definitive life are recorded at cost and are amortized on a straight-line basis over the period of expected future benefit, determined to be three years. Newly acquired ePoint product lines are considered intangible assets with a definitive life and are amortized on a straight-line basis over the period of expected future benefit, determined to be four years. The carrying value of intangible assets subject to amortization are reviewed periodically for impairment based on estimated future cash flow recoveries that are directly associated with the use of the intangible assets. The amount of the impairment, if any, is recorded against earnings in the period of determination.

(e) Measurement uncertainty

The valuation of property and equipment, and intangible assets, licenses held for resale, and future taxes is based upon management's best estimate of the future recoverability of these assets. The amounts recorded for amortization of the property and equipment, and intangible assets, licenses held for resale, and future taxes are based upon management's best estimate of the remaining useful life, period of future benefit of the related assets and future profitability.

By their nature, these estimates are subject to measurement uncertainty, and the effects on the consolidated financial statements from revised estimates, if any, will be accounted prospectively.

(f) Revenue recognition

Revenue from consulting services is recognized as the services are performed. Revenue from the sale of software licenses is recognized when the licensing contract is signed and the software is shipped. Revenue from product sales is recognized when the product is delivered. Proceeds from maintenance contracts are deferred as unearned revenue and recognized in income as recurring revenue over the period that the maintenance contract covers. Revenue from royalties is recognized when they are earned.

Revenue from a specific contract that requires the Company to reach milestones is recognized once the milestone has been reached based on requirements to meet milestones.

(g) Inventory and work in progress

The Company holds software licenses for resale. They are valued at lower of cost and net realizable value. The licenses have been classified as current and long-term based on expected period of resale.

Work in progress is valued at lesser of cost and net realizable value. It represents costs associated with unbilled contracts in progress.

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

(h) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the tax laws and rates that are anticipated to apply in the period of realization.

(i) Foreign currency translation

The Company uses the temporal method of foreign translation to translate the accounts of its foreign subsidiary. It translates all foreign currency denominated monetary assets and liabilities at period-end exchange rates. Foreign currency denominated non-monetary assets and liabilities are translated at their historical exchange rates. Revenues and expenses are translated at the rates prevailing on the respective transaction dates except for amortization which is translated at the same rate as the related assets.

Exchange gains and losses resulting from movements in rates are reflected in net income in the period.

(j) Stock-based compensation plan

The Company has established a stock option plan whereby the Company may grant options to purchase common shares to directors, officers, employees and consultants.

The Company measures all stock based payments using the fair value method of accounting and recognize the compensation expense in their financial statements. Under this method, compensation cost is measured at fair value using the Black-Scholes option pricing model at the date of grant and expensed over the vesting period of the option. The Company has implemented this amended standard in 2004 in accordance with the early adoption provisions of the standard. Per the transitional provisions, compensation expense has been calculated and recorded in the statement of income for only those options issued on or after October 1, 2003.

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

(k) Financial instruments

The Company carries a number of financial instruments as detailed on the balance sheet. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

(l) Cash and cash equivalents

Cash and short term investments consists of cash on hand, bank balances (including temporary bank overdrafts), term deposits and investments with maturities of three months or less.

(m) Leasehold inducement

Leasehold inducements are deferred and amortized against rent expense on a straight-line basis over the term of the applicable lease. When a leasehold interest is abandoned, the balance of the leasehold inducement is offset against the lease buyout cost or rent expense during the applicable period.

(n) Treasury stock method

The Company uses the treasury stock method of reporting earnings per share amounts. Basic earnings per common share are computed by dividing earnings from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

(o) Investment tax credits

The Company records investment tax credits on the cost reduction basis whereby investment tax credits related to current expenditures are included in the determination of net income in the year the tax credits are earned. Investment tax credits related to the acquisition of property and equipment are deducted from the related asset values. These claims are subject to audit by the science advisors from the Canada Revenue Agency and as a result the amounts recorded as investment tax credits receivable are subject to specific measurement uncertainty. When the estimate is known to be materially different from the actual recovery, an adjustment is made to net income in the period the determination is made. The effect on the financial statements could be significant.

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

3. Business Combination

The consolidated balance sheet reflects the acquisition of ePoint technologies Inc. as at March 16, 2004 whereby all of the issued and outstanding shares of ePoint were acquired by Sylogist for consideration of 2,798,245 common shares at a deemed price of \$0.25 per share. The acquisition has been accounted for using the purchase method with the purchase price being allocated using the carrying amounts of the assets and liabilities of ePoint, as ePoint is a related party in that ePoint is controlled by an officer and director of Sylogist.

The purchase price has been allocated as follows:

Cash	\$ 183,373
Accounts receivable	27,186
Income taxes receivable	167,559
Inventory/Other	19,502
Property and equipment	24,770
Intangible assets	429,625
Accounts payable	<u>(41,492)</u>
Purchase price	<u>\$ 810,523</u>
Share consideration – 2,798,245 common shares at a deemed issue price of \$0.25 per share (1) (Note 8(b))	\$ 699,561
Other acquisition costs	83,466
Contributed surplus	<u>27,496</u>
	<u>\$ 810,523</u>

(1) A block discount of 10% was applied to the shares issued in this transaction

4. Property and Equipment

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 699,534	\$ 632,256	\$ 67,278	\$ 645,801	\$ 604,709	\$ 41,092
Computer software	230,492	228,647	1,845	226,394	222,108	4,286
Furniture and equipment	290,155	269,381	20,774	278,070	252,355	25,715
Leasehold improvements	159,727	34,376	125,351	160,427	4,868	155,559
	<u>\$ 1,379,908</u>	<u>\$ 1,164,660</u>	<u>\$ 215,248</u>	<u>\$ 1,310,692</u>	<u>\$ 1,084,040</u>	<u>\$ 226,652</u>

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

5. Intangible Assets

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software licenses, rights and patent	\$ 186,305	\$ 186,305	\$ -	\$ 186,305	\$ 186,305	\$ -
Customer lists	31,570	31,570	-	31,570	31,570	-
Software codes	515,943	176,079	339,864	429,625	56,091	373,534
	<u>\$ 733,818</u>	<u>\$ 393,954</u>	<u>\$ 339,864</u>	<u>\$ 647,500</u>	<u>\$ 273,966</u>	<u>\$ 373,534</u>

6. Accrued Restructuring Charges

	2005	2004
Balance, September 30, 2003	\$ -	\$ 274,394
Paid during the period September 30, 2004	-	(274,394)
Balance, September 30, 2004 and 2005	<u>\$ -</u>	<u>\$ -</u>

During the period ended September 30, 2002, to further focus on the Company's core business, the Board determined that it was necessary to implement staff reductions in all offices. The staff reductions were completed by February 2003, and the lease commitments were finalized by June 2004.

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

7. Lease Inducement

	2005	2004
Lease inducement opening balance	\$ 183,766	\$ 189,600
Amortized during the year	(35,004)	(5,834)
Balance, end of the period	148,762	183,766
Less: Portion due within one year	35,003	35,003
	<u>\$ 113,759</u>	<u>\$ 148,763</u>

During the year ended September 30, 2004, the Company entered into a new lease for office space. The new lease commenced January 1, 2005 and ends on December 31, 2009. In consideration of the Company's providing and installing leasehold improvements in the premises, the Landlord agreed to pay a lease inducement in the amount of \$189,600 which is being amortized on a straight-line basis over the term of the lease.

8. Share Capital

(a) Authorized
Unlimited number of common shares

(b) Issued

	2005		2004	
	Number	Amount	Number	Amount
Balance, beginning of year	10,835,283	\$ 2,040,677	6,286,198	\$ 1,079,659
Private placement	3,045,000	3,552,539	-	-
Convertible debenture	-	-	1,666,667	250,000
Stock options exercised	329,832	75,752	84,173	16,835
Warrants exercised	41,000	62,861	-	-
Acquisition of ePoint	-	-	2,798,245	699,561
Less: Share issuance costs (Net of future income taxes of \$80,000 (2004 - \$Nil))		(215,962)		(5,378)
Balance, end of year	<u>14,251,115</u>	<u>\$ 5,515,867</u>	<u>10,835,283</u>	<u>\$ 2,040,677</u>
Warrants				
Balance, beginning of year	-	\$ -	-	-
Issued for financing cost	304,500	101,461	-	-
Exercised	(41,000)	(13,661)	-	-
Balance, end of year	<u>263,500</u>	<u>\$ 87,800</u>	<u>-</u>	<u>-</u>
Total share capital	<u>14,514,615</u>	<u>\$ 5,603,667</u>	<u>10,835,283</u>	<u>\$ 2,040,677</u>

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

8. Share Capital (continued)

- (c) On February 28, 2005 the Company completed a Private Placement for gross proceeds of \$3,654,000. The Company issued 3,045,000 common shares at \$1.20 per share and 304,500 common share purchase warrants. Each warrant is to be exercised at \$1.20 per share on or before the date that is 18 months from the date of closing.
- (d) On February 18, 2003, the Company issued 8% convertible debentures (the "debentures") with face value of \$250,000 due April 18, 2004, to the directors of the Company and an investment corporation controlled by a director. On February 27, 2004, the holders exercised their option to convert the debentures (excluding interest) into 1,666,667 common shares, at \$0.15 per common share (the "Conversion Price"). The common shares were issued from treasury.
- (e) Income per share has been calculated based on the weighted-average number of common shares outstanding during the year of 12,897,670 (2004 – 8,841,576). A reconciliation of the denominator for the diluted per share calculations is outlined below:

	2005	2004
Basic weighted-average shares	12,897,670	8,841,576
Effect of dilutive stock options	335,375	240,653
Effect of diluted warrants	36,018	-
Dilutive weighted-average shares	13,269,063	9,082,229

At September 30, 2005, all stock options and warrants outstanding were "in the money". In 2004 there were 182,142 stock options outstanding that were not "in the money" with weighted-average exercise price of \$0.91 per share that have not been included in the calculation of diluted income per share as the effect would be anti-dilutive.

(f) Warrants

As at September 30, 2005, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
263,500	\$1.20	August 8, 2006

During the year, under the fair-value-based method \$101,461 (2004 - \$nil) in share issue costs were recorded for broker warrants issued in connection with the private placement.

The fair value of warrants has been estimated using the Black-Scholes option pricing model with the following assumptions:

	2005	2004
Risk-free interest rate	2.5%	-
Expected lives (years)	1.5	-
Expected volatility	0.55	-
Annual dividend per share	\$Nil	-

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

8. Share Capital (continued)

(g) Contributed surplus

Balance, September 30, 2003	\$ -
Purchased on acquisition of subsidiary (Note 3) (net of acquisition costs of \$83,466)	27,496
Stock based compensation provision for the year	<u>29,159</u>
Balance, September 30, 2004	56,655
Stock based compensation provision for the year	<u>175,365</u>
Balance, September 20, 2005	<u>\$ 232,020</u>

9. Stock-Based Compensation

- (a) The Company has a stock option plan under which directors, officers, employees and consultants of the Company and its subsidiaries are eligible to receive stock options. The aggregate number of common shares to be issued upon exercise of all options granted under the plan shall not exceed 10% of the issued common shares of the Company at the time of granting of the options. Options granted under the plan generally have a term of five years but may not exceed five years and vest at terms to be determined by the directors at the time of grant which has generally been immediately. The exercise price of each option shall be determined by the directors at the market price at the time of grant.

A summary of the status of the Company's stock option plan as at September 30, 2005 and 2004, and changes during the years then ending is as follows:

	2005		2004	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	633,402	\$ 0.44	626,861	\$ 0.32
Granted	562,500	0.75	125,000	0.87
Cancelled	(150,000)	0.70	-	-
Exercised	(329,832)	0.23	(84,173)	0.20
Expired	-	-	(34,286)	-
Outstanding, end of year	<u>716,070</u>	<u>\$ 0.71</u>	<u>633,402</u>	<u>\$ 0.44</u>
Options exercisable, end of year	<u>674,403</u>	<u>\$ 0.70</u>	<u>584,354</u>	<u>\$ 0.36</u>

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

9. Stock-Based Compensation (continued)

- (b) The following table summarizes information about stock options outstanding and exercisable at September 30, 2005:

Exercise Prices	Number of Options Outstanding	Weighted-Average Remaining Contractual Life - Outstanding	Number of Options Exercisable	Weighted-Average Remaining Contractual Life - Exercisable
\$ 1.20	75,000	4.4 years	75,000	4.4 years
0.65	300,000	4.2 years	300,000	4.2 years
0.80	37,500	4.1 years	37,500	4.1 years
0.87	125,000	3.6 years	83,333	3.6 years
0.24	125,000	2.6 years	125,000	2.6 years
0.70	7,142	1.8 years	7,142	1.8 years
1.05	<u>46,428</u>	<u>1.6 years</u>	<u>46,428</u>	<u>1.6 years</u>
	716,070	3.6 years	674,403	3.6 years

- (c) The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions for grants as follows:

	2005	2004
Risk-free interest rate	2.5%	2.5%
Expected lives (years)	5	5
Expected volatility	0.55	0.55
Annual dividend per share	\$Nil	\$Nil

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

10. Income Taxes

- (a) The components of the future income tax asset at September 30, 2005 and 2004 are as follows:

	2005	2004
Non-capital loss carryforwards	\$ 755,446	\$ 1,223,157
Temporary differences related to property and equipment and other intangible assets	276,756	265,710
Share issuance costs	79,649	1,752
Scientific Research and Experimental Development expenditures	770,226	1,087,819
	<u>1,882,077</u>	<u>2,578,438</u>
Valuation allowance	(465,885)	(2,053,438)
	<u>\$ 1,416,192</u>	<u>\$ 525,000</u>

- (b) Income taxes expense differs from that which would be expected from applying the combined effective Canadian federal and provincial income tax rates of 33.60% (2004 – 33.62%) and the effective U.S. federal and state income tax rates of 40.00% (2004 – 40.00%) to income taxes as follows:

	2005	2004
Expected income tax expense	\$ 324,515	\$ 222,856
Difference resulting from:		
Future income tax benefit not recognized (applied)	(1,203,067)	(904,615)
Income tax rate reductions	-	138,800
Other	2,665	8,045
Stock compensation	59,624	9,914
Income tax expense (recovery)	<u>\$ (816,263)</u>	<u>\$ (525,000)</u>

- (c) The Company has incurred cumulative non-capital losses for Canadian income tax purposes of approximately \$2,034,000 (2004 - \$2,958,000) that expire between 2006 to 2009.

The Company's foreign subsidiary has incurred net operating losses of approximately US\$161,000 (2004 - US\$508,000) that expire between 2022 and 2023.

The Company has approximately \$1,877,000 (2004 - \$2,300,000) of Scientific Research and Development pools which have no expiry date. All of these pools are deductible from future income at rates prescribed by the Canadian Income Tax Act.

In addition, the Company has \$388,000 (2004 - \$402,000) of investment tax credits that expire between 2010 and 2014. The benefit of these investment tax credits has not been recognized in the financial statements.

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

11. Related Party Transactions

During the year, the Company made payments to directors and a company controlled by a director for the following:

	2005	2004
Management fees paid to a director in his capacity as an officer	\$ 112,000	\$ 128,033
Product development	-	24,664
Directors' fees	18,749	-
Interest on convertible debentures	-	3,517
	<u>\$ 130,749</u>	<u>\$ 156,214</u>

All related party transactions in the normal course of operations have been measured at the agreed to exchange amounts, which is the amount of consideration established and agreed to by the related parties.

12. Segmented Information

	2005	2004
Geographical sales:		
Canada	\$ 4,132,879	\$ 3,407,281
U.S.A. and other	<u>1,789,006</u>	<u>1,863,837</u>
	<u>\$ 5,921,885</u>	<u>\$ 5,271,118</u>

Substantially, all of the property and equipment pertain to Canada in 2005 and 2004. The other intangible assets pertain solely to the Canadian operations for 2005 and 2004.

Sylogist operates two lines of business, the ERP division and Connectivity division:

The ERP ("Enterprise Resource Planning") division resells a full range of SAP® software in Canada and Alaska and also provides implementation services for SAP® software. This line of business also supports complementary activities including application and data integration, application assistance and systems support.

The Connectivity division generates revenues from Sylogist proprietary software and implementation services. The Company's Mobile Software is used in inventory and manufacturing control, logistics, work order management and automated data capture applications. The Middleware products integrate data between enterprise systems (including SAP and Oracle) and a wide variety of packaged and custom application specific systems.

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

12. Segmented Information (continued)

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (Note 2). The Company eliminates inter-segment sales and transfers. Segment profit (loss) is measured as net profit (loss) before consideration of income taxes.

At September 30, 2005, three of the Company's customers accounted for 39.8%, 20.9%, and 11.0% respectively of consolidated accounts receivable (2004 – two customers accounted for 23.5% and 21.2%). In fiscal 2005 one customer accounted for 13.5% and another customer accounted for 10.5% of consolidated revenues (2004 – one customer accounted for 13.0% and another customer accounted for 12.5%).

The Company does not identify or allocate total assets by reportable segment. In addition, there are no inter-segment revenues. The accounting policies for all operating segments are the same as those described in the summary of significant accounting policies.

September 30, 2005					
	ERP		Connectivity		Total
Revenue	\$	4,228,446	\$	1,693,439	\$ 5,921,885
Interest expense		-		13	13
Amortization of property and equipment		36,554		9,815	46,369
Amortization of intangible assets		29,520		119,955	149,475
Net Earnings ⁽¹⁾		716,555		237,902	954,457
September 30, 2004					
	ERP		Connectivity		Total
Revenue	\$	3,480,777	\$	1,790,341	\$ 5,271,118
Interest expense		15,952		7,878	23,829
Amortization of property and equipment		16,274		48,620	64,894
Amortization of intangible assets		2,434		124,019	126,453
Net Earnings ⁽¹⁾		384,371		271,087	655,458

⁽¹⁾ excludes current and future income taxes

13. Commitments

(a) The Company has entered into various leases for its operating premises. Future minimum annual payments under these operating leases are as follows:

2006	\$180,153
2007	\$180,477
2008	\$175,797
2009	\$175,797

Sylogist Ltd.
Notes to Consolidated Financial Statements

September 30, 2005

13. Commitments (continued)

- (b) The Corporation has an employment agreement with an officer, which, in addition to standard terms relating to salary, bonus, benefits and vacation, provides for payment of an amount not to exceed one years' salary and benefits in the event of a change of control, as well as a performance fee based on the appreciation beyond \$1.00 per share of 200,000 shares, in the event of a liquidity transaction.

14. Supplemental Disclosure of Cash Flow Information

- (a) Interest and taxes paid:

	2005	2004
Interest paid	\$ -	\$ 31,384
Corporate taxes paid	\$ 4,807	\$ -

- (b) Except as disclosed elsewhere in these consolidated financial statements the Company had the following non-cash transactions which have been excluded from the statement of cash flows:

- i) In the prior year, the Company negotiated a lease inducement of \$189,600, which was receivable as of the year-end date. It was also recorded as current and long term liability as described in Note 7.
- ii) \$75,345 of research tax credits receivable carried forward from prior year was transferred to intangible assets.

15. Financial Instruments

As disclosed in Note 2(k), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to industry credit, interest rate and foreign currency risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

- (a) Credit risk

The Company is exposed to normal credit risk. At September 30, 2005, three customers account for 71% (2004 – 3 customers accounted for 54%) of the Company's accounts receivable. At September 30, 2005, the majority of the Company's cash is held at one institution. The Company has concentration of credit risk.

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15. Financial Instruments (continued)

(b) Foreign currency rate risk management

A portion of the Company's sales are made to customers in the United States. Accordingly the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company does not have any exposure to highly inflationary foreign currencies.

The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and trade accounts receivable to offset foreign currency payables.

As at September 30, 2005, the increase or decrease in income before taxes for each 1% change in the value of the Canadian dollar against the US dollar amounts to approximately \$1,563 (2004 - \$5,800).

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